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AGENDA ITEM 10

TO: MEMBERS OF THE BENEFIT AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Actuarial Valuation Report for the 1959 Survivor Benefit Program as of June 30, 2005

II. PROGRAM: Actuarial & Employer Services

III. RECOMMENDATION:

It is recommended that the committee accept staff's June 30, 2005 actuarial valuation report for the Public Agencies' 1st, 2nd, 3rd, 4th, and Indexed Levels and for the State and Schools 5th Level of the 1959 Survivor Program and adoption of the following employer and employee monthly premiums for fiscal year 2006-2007 (shown also are results from 2005-2006 for comparison):

	2005-2006 Premium			2006-2007 Premium		
Pool	Employer	Employee	Total	Employer	Employee	Total
State 5th Level Pool*	$5.65	$5.65	$11.30	$5.40	$5.40	$10.80
Schools 5th Level Pool*	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 1st Level Pool**	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 2nd Level Pool**	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 3rd Level Pool**	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 4th Level Pool**	$2.30	$2.00	$4.30	$2.40	$2.00	$4.40
PA Indexed Level Pool*	$0.00	$2.00	$2.00	$0.80	$2.00	$2.80

* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds $4.00

** Mandatory $2.00 member monthly premium required

IV. Analysis

Background

The 1959 Survivor Benefit program provides six different levels of survivor benefits for employees who die while actively employed and without Social Security coverage. The program is intended to serve as a replacement for the survivor benefits that would otherwise be provided by Social Security.

Other than the Indexed Level, all levels of the 1959 Survivor Program are "pooled" benefits to which participating employers contribute a monthly amount per member as determined by the Term Insurance Method. The use of this method is specified by State Statute Sections 21574.7(f), 21574(e), 21573(h), 21572(i), and 21571(g).

The Public Agency Indexed Level of the 1959 Survivor benefit is “pooled”, and participating employers contribute a monthly amount per member as determined by the Entry Age Normal Method. The use of this method was determined by the Board as specified by State Statute 21574.5(f). In all cases contributions are billed to employers apart from the employer's contribution rate for retirement and disability benefits. For those employers in each pool as of the valuation date, the employer Normal Cost is adjusted by an amortization of the surplus or unfunded liability.

Prior Year’s Experience

The exhibit below shows a comparison of the funded status between valuation dates for each pool on both an actuarial value and market value basis. The market ratio indicator is a more correct measure of the solvency of the plan, since it compares the true market value of assets on hand to pay liabilities.

Pool	2004 Actuarial	2005 Actuarial	2004 Market	2005 Market
State	79.7%	79.8%	78.4%	82.2%
School	384.1	417.7	379.6	432.0
PA Level 1	872.7	999.7	872.7	1,048.2
PA Level 2	361.7	351.8	361.7	368.1
PA Level 3	306.2	314.9	302.6	325.9
PA Level 4	138.5	133.9	138.2	139.6
PA Indexed	160.1	151.9	159.0	157.1

All pools in the 1959 Survivor program realized a positive asset return of approximately 13% for fiscal year 2004-2005, which is above our assumed long-term rate of return on assets. With the exception of the Public Agency Indexed Level and Level 1, the investment return, in conjunction with rate stabilization caused funded ratios and surpluses to change very little. Between valuation years, there was one exceptionally large public agency employer that migrated between the Level 1 and the Indexed Level pool. This resulted in changes to the funded ratio and surplus levels of both pools to be somewhat out of line with the other pools, however, even with this event, the changes weren't necessarily considerable. Given the changes in employer premiums, funded ratios and surplus levels between valuation years, it is evident that for the most part, rate stabilization is indeed dampening the variability in these three key valuation parameters.

Liability gains and losses across all pools continue to display a random pattern averaging around zero for the last several annual valuations. This indicatives that the demographic assumptions and normal cost premiums are fairly accurate in anticipating the true long-term cost of the plans. The greatest variability in liability gains and losses comes from the School pool. Even though the average gain/loss over the past 5 years has been small (a $95,000 gain), the size of the pool is also small, which makes the actual gain/loss from year to year quite variable. As an example, the School pool saw the number of deaths decrease from 5 in 2003 to 1 in 2004. Such variable experience presents difficulty when developing the annual premium or normal cost for the pool. We concluded that the deaths for 2004 are anomalous, and were therefore disregarded in determining the normal cost.

Following is a summary of the gains and losses attributed to each pool along with changes (if any) to the total premium:

State Pool

- Asset Gain/Loss - $221,875 gain recognized out of a total $3,328,127
- Liability Gain/Loss - $2,524,684 gain, of which $1.7 million can be attributed to expected new claims being higher than actual claims
- Total Premium - Decreased $0.50, from $11.30 to $10.80 due to liability and asset gains

School Pool

- Asset Gain/Loss - $116,775 gain recognized out of a total $1,751,627
- Liability Gain/Loss - $423,647 gain due almost entirely to expected new claims being much higher than actual new claims
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 1 Pool

- Asset Gain/Loss - $86,701 gain recognized out of a total $1,300,514
- Liability Gain/Loss - $64,256 loss attributed mainly to mortality losses and to a lesser degree, actual new claims being slightly higher than expected
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 2 Pool

- Asset Gain/Loss - $21,318 gain recognized out of a total $319,776
- Liability Gain/Loss - $61,451 loss due mainly to actual new claims being higher than expected
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 3 Pool

- Asset Gain/Loss - $189,158 gain recognized out of a total $2,837,364
- Liability Gain/Loss - $105,903 loss represents only .4% of that which was expected
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 4 Pool

- Asset Gain/Loss - $377,145 gain recognized out of a total $5,657,169
- Liability Gain/Loss - $1,209,567 loss due entirely to actual new claims being higher than expected
- Total Premium - Increases from $4.30 to $4.40 because of liability losses

Public Agency Indexed Pool

- Asset Gain/Loss - $39,418 gain recognized out of a total $591,264
- Liability Gain/Loss - $464,904 gain, of which $260,000 can be attributed to actual new claims being less than expected
- Total Premium – Increases from $2.00 to $2.80. Even though there were asset and liability gains, the migration of one large employer into this pool caused an increase in the required premium for 2006/2007. Although this large employer brought surplus into the pool, the funded status of this large employer was less than the funded status of the pool. This fact, combined with the 30-year amortization of the pool's surplus increased the total required annual premiums of the pool. Staff will complete a study of this issue and, if appropriate, change the way employers "buy into" the 1959 Survivor pools in the future.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

See report.

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Attachments